Top 10 Ways to Prepare your Business for Borrowing

Obtaining business loans is often intimidating for a small business owner. The success of securing the right loan or financing can dramatically be improved by staying prepared for the need to borrow money throughout the year. The checklist shown below should be part of every business owner's resource file.

1) Keep good accounting books. Lenders are often more concerned about the accuracy of the records then the actual information presented. Keep a set of interim financial statements for each month end or quarter, including balance sheet, income statement, accounts receivable aging detail, and accounts payable aging detail. Make sure all the data "foots" correctly. Consider having an accounting firm prepare an annual end of year compilation. These documents are needed by nearly every lender. Keep historical copies of these reports available to demonstrate trends in financial condition.

2) Keep accurate and up to date business organization records available in one place. For a sole proprietorship, this would be any business license and assumed name certificate. A corporation should keep original and copies of a) articles of incorporation b) certificate of incorporation, c) corporate by-laws (up to date), corporate minutes, and copies of all corporate resolutions.

3) Have all shareholders who own more than 20% of the company keep a personal financial statement up to date. Generic forms or forms from nearly any bank are often acceptable to many lenders. A good general financial statement form can be downloaded from www.lesliethacker.com\resources.htm. As long as no changes have been made in financial condition, a personal financial statement is good for 1 year from signature.

4) Know several important statistical characteristics of your business. Lenders want to know that management understands its day to day financial condition. Lenders will often "size up" management at the very early stage of a loan request and use this process to weed out companies they don't want to "waste time" on. Here is a partial list of information that management should always know about their company through the last interim financial statement: a) year to date gross sales; b) year to date gross and net profit; c) current accounts receivable balance; d) current accounts payable balance; e) who the top five customers are and what % of sales each represents; and f) projected annual sales for the current year. It is amazing how much better one's chances are for obtaining a business loan are by simply knowing the financial pulse of one's company.

5) Make sure all shareholders who own more than 20% of the company knows what their credit scores are. Though personal credit scores of principals are important, it is more important that principals not have surprises. A shareholder should be fully informed about any negative characteristics of their report and be prepared to proactively explain them. If a principal finds any discrepancies, they should be handled expeditiously. Negative entries on a credit report that

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are explained honestly will have less impact than if the lender finds them and must ask about them.

6) Management should keep easy to find proof that all necessary taxes and governmental reports have been filed and that the company is in good standing. In particular, keep copies of IRS 940 and 941 tax filings and copies of checks or bank statement showing that these taxes have been paid. A lender will often require 12 months worth of reports and proof that taxes are paid. If a business has to maintain a business license or file franchise tax reports, make sure and keep copies of these filings so they may be easily provided.

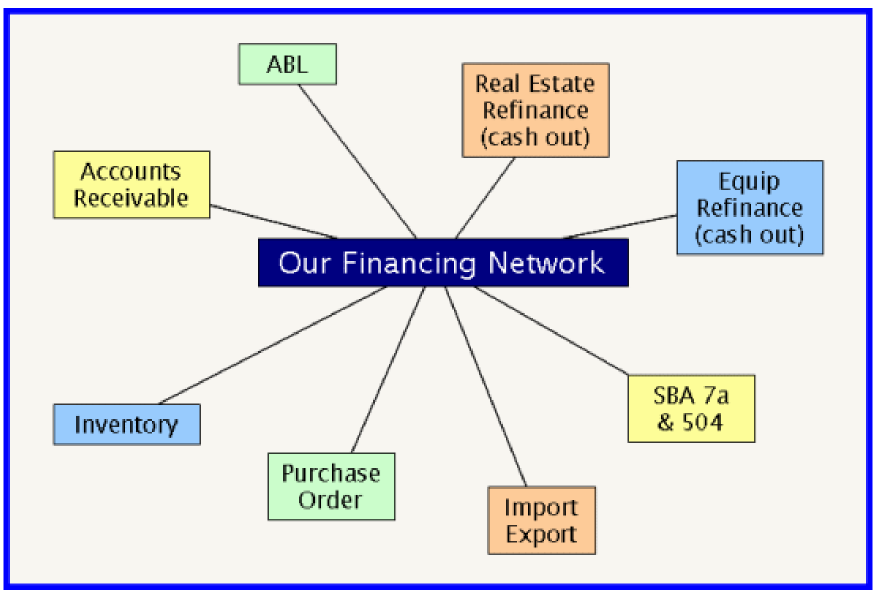
7) Know what lenders / trade vendors have filed financing statements (UCCs) against the business. Have copies of them and understand what collateral is secured. It is unfortunate but it is very common for business owners to not know that some or all of their collateral has been secured by a prior loan or trade financing relationship.

8) Keep a one page, smartly worded description of your business. This is particularly important if your business is complex and unique. This write up should be factual and briefly discuss what the business does, what unique market advantage the company has, business history, and summary of next year business plan.

9) Keep up to date resumes for all shareholders with 20% interest or higher and all key management personnel, especially if management has more domain knowledge then owners.

10) Find a highly qualified business financial professional who can provide guidance in looking for the right loan for your business. These experts succeed by knowing current trends in the financing marketplace.

This may look like an intimidating list, but business owners will have a significantly higher chance of obtaining necessary capital at favorable rates if they build this list of due diligence materials that nearly every lender will ask for.



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